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November 3, 1992

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Federal Communications Commission
Office of the Secretary

EX PARTE

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: CC Docket No. 92-101

Today, Kent Edwards, Director-Financial Matters, and I met with Linda Oliver, Legal Advisor to Commissioner Ervin S. Duggan. The purpose of the meeting was to discuss Bell Atlantic's position concerning Statement of Financial Accounting Standards No. 106. Material distributed at the meeting is attached.

Please call me if you have any questions.

Sincerely,



Attachment

cc: L. Oliver

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Federal Communications Commission
Office of the Secretary

BELL ATLANTIC

EX PARTE - CC DOCKET NO. 92-101

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 106 (SFAS 106)

OTHER POST RETIREMENT BENEFITS

DISCUSSION OUTLINE

- I BACKGROUND - SFAS 106
- II ISSUES

DOES SFAS 106 CAUSE AN EXOGENOUS COST CHANGE?

WHAT IS THE APPROPRIATE LEVEL OF THE COST CHANGE?

BACKGROUND

DEFINITION

SFAS 106 REQUIRES THAT COMPANIES PROVIDING POST RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB), CHANGE TO AN ACCRUAL BASIS FOR ACCOUNTING FOR THESE COSTS VERSUS A PAY-AS-YOU-GO BASIS.

HISTORY

CHANGING FROM A CASH TO AN ACCRUAL BASIS FOR OPEB WAS DISCUSSED OVER A LONG PERIOD (FROM THE EARLY 1980'S).

FOCUS WAS TO ACHIEVE THE "MATCHING" PRINCIPLE IN ACCOUNTING FOR SUCH COSTS, I.E., TO CHARGE COSTS OF CURRENT EMPLOYEES AGAINST CURRENT OPERATIONS.

PAY-AS-YOU-GO (CASH) BASIS RESULTED IN CURRENT CUSTOMERS PAYING FOR BENEFITS OF FORMER (RETIRED) EMPLOYEES.

DECEMBER 1990 - FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) ISSUED STATEMENT REQUIRING THAT ALL COMPANIES WHICH PROVIDED OPEB CHANGE FROM A CASH TO AN ACCRUAL BASIS OF ACCOUNTING FOR SUCH COSTS NO LATER THAN JANUARY 1993. EARLY ADOPTION WAS ENCOURAGED.

MAY 1990 - AT&T, UNDER ITS NEW PRICE CAP REGULATIONS, FILED FOR OPEB AS AN EXOGENOUS COST CHANGE. FCC DENIED - ON BASIS THAT CLAIM WAS PREMATURE.

DECEMBER 1991 - FCC REQUIRED CARRIERS TO ADOPT SFAS 106 ACCRUAL ACCOUNTING FOR REGULATORY PURPOSES, FINDING THAT THE ACCOUNTING CHANGE WAS CONSISTENT WITH REGULATORY OBJECTIVES.

DECEMBER 1991 - BELL ATLANTIC ADOPTED SFAS 106 ACCOUNTING FOR BOTH FINANCIAL AND REGULATORY ACCOUNTING AND REPORTING PURPOSES.

FEBRUARY 1992 - BELL ATLANTIC FILED UNDER PRICE CAP REGULATIONS TO REFLECT OPEB AS AN EXOGENOUS COST CHANGE.

SUBSEQUENTLY, SEVERAL OTHER LECS FILED AND THE FCC ELECTED TO SUSPEND AND INVESTIGATE, WITH THE LENGTHY CYCLE NECESSARY FOR DIRECT CASES, COMMENTS, REBUTTALS, ETC.

CURRENTLY, A COMMISSION ORDER IS REQUIRED ON OR BEFORE DECEMBER 2, 1992.

DOES SFAS 106 CAUSE AN EXOGENOUS COST CHANGE?

TWO ASPECTS OF THE QUESTION -

ARE OPEB COSTS REAL COSTS?

BOTH BELL ATLANTIC'S FINANCIAL AND REGULATORY ACCOUNTING REFLECT OPEB COSTS.

THE ACTUAL COSTS ARE DEFINED AS THE "CHANGE IN COSTS" THAT RESULT FROM THE REQUIRED ACCOUNTING CHANGE.

SUCH COSTS ARE CURRENTLY REFLECTED IN THE RATEMAKING OF RATE OF RETURN LECs.

DOES THE OPEB COST CHANGE QUALIFY AS "EXOGENOUS" UNDER THE PRICE CAP RULES?

ADOPTION OF SFAS 106 IS NOT VOLUNTARY, I.E., DICTATED BY BOTH FASB AND THE FCC. THEREFORE, ADOPTION OF SFAS 106 IS OUTSIDE OF THE CONTROL OF BELL ATLANTIC.

THE COMMISSION'S ACTION IN REQUIRING A CHANGE IN PART 32 ACCOUNTING CONSTITUTES AN EXOGENOUS EVENT.

OPEB COSTS WILL NOT BE FULLY RECOVERED IN BELL ATLANTIC'S RATES VIA THE PRICE CAP FORMULA. THE OPEB COSTS THAT WILL BE REFLECTED IN GNP-PI WOULD NOT BE ELIGIBLE FOR EXOGENOUS TREATMENT. THEREFORE, BELL ATLANTIC ADOPTED A CONSERVATIVE MEASURE OF HOW MUCH OF OPEB WOULD BE IN GNP-PI, I.E., GODWINS STUDY OVERESTIMATES THE OPEB COSTS IN GNP-PI TO AVOID POTENTIAL DOUBLE-COUNTING.

WHAT IS THE APPROPRIATE AMOUNT OF THE COST CHANGE?

THE RELEVANT AMOUNT OF THE EXOGENOUS COST CHANGE IS CALCULATED AS THE DIFFERENCE BETWEEN PAY-AS-YOU-GO AND ACCRUAL BASES.

FOR BELL ATLANTIC:		(\$MILLION)
A.	ON-GOING OPEB	55.5
B.	INTEREST	247.7
C.	RETURN ON PLANT ASSETS	49.8
D.	AMORTIZATION OF TBO *	<u>150.0</u>
E.	ACCRUAL COSTS (A + B - C + D)	403.4
F.	PAY-AS-YOU-GO	66.8
G.	VEBA	126.5
H.	OTHER	<u>108.7</u>
I.	TOTAL CURRENT COSTS (F + G + H)	302.0
J.	ACCRUAL LESS CURRENT COSTS (E-I)	101.4
K.	INTERSTATE AMOUNT	<u>19.2</u>

THE OPEB INCREMENTAL COSTS ARE DETERMINED BY ACTUARIAL STUDIES
- AND ARE SUBJECT TO OUTSIDE AUDIT.

* TBO = TRANSITION BENEFIT OBLIGATION
(ROUGHLY 17 YEARS FOR BELL ATLANTIC)